

MITCHELL COUNTY
Osage, Iowa

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
June 30, 2004

MITCHELL COUNTY, IOWA
Osage, Iowa

TABLE OF CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITORS' REPORT	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-8
BASIC FINANCIAL STATEMENTS	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A..... 9
Statement of Activities	B..... 10
Governmental Fund Financial Statements:	
Balance Sheet	C..... 11-12
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D..... 13
Statement of Revenues, Expenditures and Changes in Fund Balances	E..... 14-15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F..... 16
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Assets and Liabilities – Agency Funds	G..... 17
Notes to Financial Statements	18-31
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds	32
Budget to GAAP Reconciliation	33
Notes to Required Supplementary Information – Budgetary Reporting	34

TABLE OF CONTENTS (Continued)

OTHER SUPPLEMENTARY INFORMATION:	<u>Schedule</u>	<u>Page</u>
Non-major Special Revenue Funds:		
Combining Balance Sheet	1	35-36
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances.....	2	37-38
Agency Funds:		
Combining Schedule of Fiduciary Assets and Liabilities	3	39-40
Combining Statement of Changes in Fiduciary Assets and Liabilities	4	41-42
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	43
 INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING		 44-45
SCHEDULE OF FINDINGS		46-50

MITCHELL COUNTY
Osage, Iowa

OFFICIALS

<u>Name</u>	<u>Term Expires</u>	<u>Title</u>
Stan Walk	January 2005	Board of Supervisors
Cheryl Jahnel.....	January 2007	Board of Supervisors
Verne Tanner.....	January 2007	Board of Supervisors
Lowell Tesch.....	January 2005	Auditor
Carol Zerck.....	January 2007	Treasurer
Sue Reimers	January 2007	Recorder
Curtis Younker	January 2005	Sheriff
Mark Walk.....	January 2007	Attorney
L. Dean Pohren.....	Appointed.....	Assessor

Independent Auditors' Report

To the Officials of Mitchell County
Osage, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mitchell County, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Mitchell County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mitchell County at June 30, 2004, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 14 to the financial statements, during the year ended June 30, 2004, Mitchell County adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*; Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Independent Auditors' Report (Continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2005 on our consideration of Mitchell County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 - 8 and 32 - 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Mitchell County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. We previously audited in accordance with standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2002 (none of which are presented herein) and expressed qualified opinions on those financial statements for lack of materials and supplies inventory records pertaining to Special Revenue Funds. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

March 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Mitchell County provides this Management's Discussion and Analysis of Mitchell County's annual financial statements. This narrative overview and analysis of the financial activities of Mitchell County is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

Because Mitchell County is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the County's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- County governmental funds revenue decreased approximately \$319,762 from 2003 to 2004. Property taxes decreased approximately \$106,102 and intergovernmental increased approximately \$8,137.
- County program expenses were approximately \$80,430 less in 2004 than in 2003. Capital projects expense increased approximately \$407,532.
- The county's net assets increased 5%; approximately \$259,892 at June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 and 10, Exhibits A and B) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on pages 11-12, Exhibit C. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as an agent or custodian for the benefit of those outside of the government (Agency Funds).

Reporting the County as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the County's finances is, "is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are displayed in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, government services to residents, administration or general government, interest on long-term debt and other non-program activities. Property taxes and state and federal grants finance most of these activities.

Fund Financial Statements

The fund financial statements begin on pages 11-12 Exhibit C and provide detailed information about the most significant funds—not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County establishes many other funds to help it control and manage money for particular purposes.

Most of the County's basic services are accounted for in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found beginning on page 18.

Supplemental Information

The supplemental information begins on page 35 (Schedule 1) and provides detailed information about the non-major governmental funds and the individual agency funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County's combined net assets were changed slightly increasing from \$5,181,401 to \$5,441,293. The analysis below focuses on net assets and changes in net assets of government activities.

Net Assets of Governmental Activities

	(Expressed in Thousands)
	<u>2004</u>
Current and Other Assets	\$6,005
Capital Assets	<u>5,320</u>
Total Assets	<u>11,325</u>
Long-Term Debt Outstanding *	2,601
Other Liabilities**	<u>3,283</u>
Total Liabilities	<u>5,884</u>
Net Assets:	
Invested in Capital Assets, Net of debt	2,899
Restricted	1,940
Unrestricted	<u>602</u>

Total Net Assets

\$5,441

*Includes road graders, jail payment, hydro-dam payments, and other property purchased

**Includes deferred revenue of \$2,824,300

Net assets of the County's governmental activities increased by approximately 5%, (from \$5.18 Million) the largest portion of the County's net assets is the Invested in Capital Assets (infrastructure, buildings and equipment), less the related debt. The debt related to the Investment in Capital Assets is liquidated with sources other than capital assets. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Changes in Net Assets of Governmental Activities

Program Revenues:

Charges for service and sales	\$ 786
Operating grants and contributions	2,793
Capital grants and contributions	0
Property taxes	3,006
Unrestricted investments earnings	44
Other general revenues	<u>1,019</u>
Total revenues	<u>7,648</u>

Program Expenses:

Public safety and legal services	1,178
Physical health and social services	721
Mental health	1,539
County environment and education	578
Roads and transportation	2,366
Government services to residents	212
Administration or general government	665
Non-program	43
Interest on long-term debt	<u>86</u>
Total expenses	<u>7,388</u>

Increase in net assets 260

Net assets July 1, 2003 5,181

Net assets June 30, 2004 \$ 5,441

The County's revenue decreased 4% (\$319,762). The total cost of programs and services decreased 2%, (\$80,430, excluding law enforcement expenditures) with no new programs added this year.

Governmental Activities

Mitchell County experienced a decrease in property taxes levied in 2004. The decrease was \$106,102, or a 3% decline. The decrease was due to a decline in property taxable valuation. Other factors included loss of state funding of property tax credits and a 35% increase in insurance expense, which includes health, property and casualty, etc.

Revenue increased substantially from contract services for jail space, bioterrorism and terrorism grants during FY2004 as compared to FY2003.

THE COUNTY'S INDIVIDUAL MAJOR FUNDS

As the county completed the year, its governmental funds reported a combined fund balance of \$2.6 million, which is \$402,980 below last year's total of \$3.1 million. The \$2.6 million balance is 15% of

the budgeted expenditures for the 2004 fiscal year. The following are the major reasons for the changes in fund balances from the prior year.

The ending fund balance of General Basic funds decreased by \$254,232 from 2003 to 2004. One primary reason for the decrease was a decrease in property taxes collected, combined with an increase for insurance premiums and emergency courthouse repairs to the roof.

The reduction of balance in the Mental Health funds was as a result of an intentional attempt to reduce the balance in 2003.

The Rural Services fund expenditures, revenue, and balance were very close to those anticipated in the 2004 budget.

The Secondary Road fund began the year with a balance \$270,784 higher than anticipated and Road Use Tax revenue for 2004 was \$41,965 higher than anticipated.

Factors contributed to an increased ending balance were staff reductions and a milder winter than anticipated.

BUDGETARY HIGHLIGHTS

On November 4, 2003 the budget was amended to accommodate the conclusion to the revised chart of accounts. The budget was also amended on May 11, 2004 with an increase of revenue of \$66,235 and an increase of expenditures of \$199,521. The major increases in revenue were document fees, jail contract services, Sheriff fines collected and terrorism grants. Courthouse emergency roof repair and the cost of imaging equipment for the Recorder's Office were the main reasons for the increase in expenditures. The revenue difference between the amended budget and actual revenue for 2004 was less than 1%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the County had \$5.3 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This amount represents a net increase (including additions and deletions) of approximately \$411,000 or 8% over last year.

Capital Assets at Year End of Governmental Activities

	(Expressed in Thousands)
	<u>2004</u>
Land	\$748
Buildings and Improvements	2,771
Equipment	1,211
Infrastructure	590
Total	<u>\$5,320</u>

This year's major additions include (expressed in thousands)

Courthouse Roof	\$53
Imaging Equipment	35
Sheriff Car	20
Infrastructure	619
	<u>\$727</u>

The County had depreciation expense of \$315,786 for the year ended June 30, 2004 and total accumulated depreciation as of June 30, 2004 of \$3,911,361.

The County's fiscal year 2004 capital expenditures totaled \$644,901 principally for the continued upgrading of secondary roads and bridges. The County has no plans to issue additional debt to finance these projects. Rather, the County will use resources on hand in the County's fund balance. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Debt Administration

At June 30, 2004, the County had approximately \$2,899,000 in bonds and other debt outstanding compared to approximately \$2,601,000 at June 30, 2003, as shown below.

Outstanding Debt at Year-End of Governmental Activities

	(Expressed in Thousands)	
	2004	2003
LOSST Bonds	\$1,680	\$1,790
Loan Agreements	740	888
Drainage Improvement Certificates	43	56
Capital Lease Purchase Agreements	0	41
Compensated Absences	138	124
	<u>\$2,601</u>	<u>\$2,899</u>

The Constitution of the State of Iowa limits the amount of general obligation debt that counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. The County's outstanding general obligation debt is significantly below this \$24 million limit.

Other obligations include accrued vacation pay. More detailed information about the County's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The county begins the 2004 fiscal year with a balance of 11% when compared to expected expenditures. This low balance along with less interest income, reduction of state supported property tax credits, and uncertainty over future state legislative cuts have created a need for an increase in property taxes. Increased expenses for 2004 will include a 35% increase in liability and property insurance, increases in health insurance premiums, salary increases, and repair or replacement of worn out equipment and vehicles.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor's Office, 508 State Street, Osage, Iowa.

MITCHELL COUNTY
Osage, Iowa

STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities
ASSETS	
Cash & Pooled Investments	\$2,583,692
Receivables	
Property Tax	
Delinquent	12,386
Succeeding Year	2,824,300
Interest & Penalty On Property Tax	136
Accounts	92,813
Accrued Interest	4,819
Drainage Assessments	42,638
Due From Other Governments	285,946
Inventories	158,028
Capital Assets (Net of Accumulated Depreciation)	5,320,029
TOTAL ASSETS	11,324,787
LIABILITIES	
Accounts Payable	372,806
Accrued Interest Payable	32,571
Salaries & Benefits Payable	22,636
Due To Other Governments	29,794
Deferred Revenue	
Succeeding Year Property Tax	2,824,300
Long Term Liabilities	
Portion Due Or Payable Within One Year	
General Obligation Notes	248,799
Compensated Absences	137,920
Portion Due Or Payable After One Year	
General Obligation Notes	2,172,030
Drainage Improvement Certificates Payable	42,638
TOTAL LIABILITIES	5,883,494
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	2,899,200
Restricted For:	
Mental Health Purposes	485,884
Secondary Roads Purposes	847,123
Other Purposes	607,236
Unrestricted	601,850
TOTAL NET ASSETS	\$5,441,293

See Notes To Financial Statements

MITCHELL COUNTY
Osage, Iowa

STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

FUNCTIONS/PROGRAMS:	Expenses	Charges for Service	Program Revenues		Revenue & Changes in Net Assets
			Operating Grants, Contributions, & Restricted Interest	Capital Grants, Net (Expense) Contributions, & Restricted Interest	
GOVERNMENTAL ACTIVITIES:					
Public Safety & Legal Services	\$1,178,390	\$261,281	\$335	\$ 0	\$(916,774)
Physical Health & Social Services	720,774	53,664	584,750	0	(82,360)
Mental Health	1,539,213	96,233	272,272	0	(1,170,708)
County Environment & Education	578,398	115,276	9,288	0	(453,834)
Roads & Transportation	2,365,357	25,824	1,926,746	0	(412,787)
Governmental Services to Residents	212,273	196,122	0	0	(16,151)
Administrative Services	664,828	17,183	0	0	(647,645)
Non-Program	43,329	0	0	0	(43,329)
Interest on Long-Term Debt	85,870	20,883	0	0	(64,987)
TOTAL	\$7,388,432	\$786,466	\$2,793,391	\$ 0	(3,808,575)
GENERAL REVENUES:					
Property and Other County Tax Levied For:					
General Purposes					3,005,834
Penalties & Interest on Property Tax					20,380
State Tax Credits					188,289
Local Option Sales Tax					369,743
Unrestricted Investment Earnings					44,398
Miscellaneous					440,698
Loss on Disposal of Capital Assets					(875)
TOTAL GENERAL REVENUES					4,068,467
CHANGE IN NET ASSETS					259,892
NET ASSETS, BEGINNING OF YEAR, AS RESTATED (Note 14)					5,181,401
NET ASSETS END OF YEAR					\$5,441,293

See Notes To Financial Statements

MITCHELL COUNTY
Osage, Iowa

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

		Special Revenue	
	General	Mental Health	Rural Services
ASSETS			
Cash and Pooled Investments	\$547,013	\$612,792	\$247,104
Receivables			
Property Tax			
Delinquent	6,005	2,208	4,173
Succeeding Year	1,363,041	501,186	960,073
Interest & Penalty on Property Tax	136	0	0
Accounts	62,061	27,467	0
Accrued Interest	4,285	0	0
Drainage Assessments	0	0	0
Due From Other Funds	5,908	0	0
Due From Other Governments	116,599	277	304
Inventories	0	0	0
TOTAL ASSETS	\$2,105,048	\$1,143,930	\$1,211,654

LIABILITIES AND FUND BALANCES

Liabilities			
Accounts Payable	\$53,955	\$128,338	\$1,223
Salaries & Benefits Payable	12,361	2,001	0
Due To Other Governments	3,273	26,521	0
Deferred Revenue			
Succeeding Year Property Tax	1,363,041	501,186	960,073
Other	9,070	2,181	4,173
Total Liabilities	1,441,700	660,227	965,469
Fund Balances			
Reserved For:			
Inventories	0	0	0
Unreserved, Reported In:			
General Fund	663,348	0	0
Special Revenue Funds	0	483,703	246,185
Total Fund Balances	663,348	483,703	246,185
TOTAL LIABILITIES AND FUND BALANCES	\$2,105,048	\$1,143,930	\$1,211,654

See Notes To Financial Statements

Exhibit C

<u>Special Revenue</u> Secondary Roads	Non-major Special Revenue	Total
\$797,746	\$373,129	\$2,577,784
0	0	12,386
0	0	2,824,300
0	0	136
20	3,265	92,813
0	534	4,819
0	42,638	42,638
0	0	5,908
152,072	16,694	285,946
158,028	0	158,028
<u>\$1,107,866</u>	<u>\$436,260</u>	<u>\$6,004,758</u>
\$189,290	\$ 0	\$372,806
8,274	0	22,636
0	0	29,794
0	0	2,824,300
0	42,638	58,062
<u>197,564</u>	<u>42,638</u>	<u>3,307,598</u>
158,028	0	158,028
0	0	663,348
752,274	393,622	1,875,784
<u>910,302</u>	<u>393,622</u>	<u>2,697,160</u>
<u>\$1,107,866</u>	<u>\$436,260</u>	<u>\$6,004,758</u>

**MITCHELL COUNTY
Osage, Iowa**

**RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2004**

Total governmental fund balances (page 11-12)	\$2,697,160
---	-------------

*Amounts reported for governmental activities in the Statement of Net Assets
are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$9,311,390 and the accumulated depreciation is \$3,991,361.	5,320,029
--	-----------

Other long term assets are not available to pay current period expenditures and, therefore, are deferred in the funds	58,062
---	--------

Long-term liabilities, including bonds payable, accrued interest payable and compensated absences payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,633,958)</u>
--	--------------------

Net assets of governmental activities (page 10)	<u><u>\$5,441,293</u></u>
---	---------------------------

See Notes to Financial Statements.

MITCHELL COUNTY
Osage, Iowa

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004**

		Special Revenue	
	General	Mental Health	Rural Services
REVENUES			
Property & Other County Tax	\$1,599,341	\$511,101	\$1,006,161
Interest & Penalty on Property Tax	20,380	0	0
Intergovernmental	747,555	689,443	57,102
Licenses & Permits	3,188	0	0
Charges for Services	538,822	96,071	10,379
Use of Money & Property	52,407	163	0
Miscellaneous	4,357	0	0
Total Revenues	2,966,050	1,296,778	1,073,642
EXPENDITURES			
Current:			
Public Safety & Legal Services	1,116,805	0	7,280
Physical Health & Social Services	717,099	0	0
Mental Health	0	1,525,248	0
County Environment & Education	424,405	0	148,564
Roads & Transportation	0	0	0
Governmental Services to Residents	219,008	0	0
Administrative Services	702,140	0	0
Non-program	98	0	0
Debt Service	0	0	0
Capital Projects	0	0	0
Total Expenditures	3,179,555	1,525,248	155,844
Excess (Deficiency) of Revenues Over (Under) Expenditures	(213,505)	(228,470)	917,798
Other Financing Sources (Uses)			
Sale of Capital Assets	512	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	(62,368)	0	(866,632)
Total Other Financing Sources (Uses)	(61,856)	0	(866,632)
Net Change in Fund Balances	(275,361)	(228,470)	51,166
Fund Balances – Beginning of Year, As Restated (Note 14)	938,709	712,173	195,019
Decrease in Reserve For Inventories	0	0	0
Fund Balances – End of Year	\$663,348	\$483,703	\$246,185

See Notes To Financial Statements

Exhibit E

<u>Special Revenue Secondary Roads</u>	<u>Non-major Special Revenue</u>	<u>Total</u>
\$ 0	\$258,820	\$3,375,423
0	0	20,380
1,926,747	10,153	3,431,000
1,257	0	4,445
17,437	32,653	695,362
2,957	26,616	82,143
6,101	29,966	40,424
1,954,499	358,208	7,649,177
0	115	1,124,200
0	535	717,634
0	0	1,525,248
0	35,775	608,744
2,269,216	0	2,269,216
0	21,467	240,475
0	0	702,140
0	43,231	43,329
0	203,765	203,765
644,901	0	644,901
2,914,117	304,888	8,079,652
(959,618)	53,320	(430,475)
0	0	512
929,000	0	929,000
0	0	(929,000)
929,000	0	512
(30,618)	53,320	(429,963)
953,976	340,302	3,140,179
(13,056)	0	(13,056)
\$910,302	\$393,622	\$2,697,160

MITCHELL COUNTY
Osage, Iowa

**RECONCILIATION OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
Year Ended June 30, 2004

Net change in fund balances - Total governmental funds (page 14-15) \$(443,019)

*Amounts reported for governmental activities in the Statement of
Activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlays exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$727,738	
Depreciation Expense	<u>(315,786)</u>	411,952

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increases financial resources. (1,387)

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds.

Property tax	154	
Other	<u>(132)</u>	22

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the Statement of Net Assets. Current year repayments exceeded issued as follows:

Repaid		298,378
--------	--	---------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences	(13,649)	
Interest on long-term debt	<u>7,595</u>	<u>(6,054)</u>

Change in Net Assets of Governmental Activities (page 10) \$259,892

See Notes to Financial Statements

**MITCHELL COUNTY
Osage, Iowa****STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2004****ASSETS**

Cash & Pooled Investments	
County Treasurer	\$521,175
Other County Officials	19,626
Receivables	
Property Tax	
Delinquent	503
Succeeding Year	7,721,144
Accounts	20,787
Accrued Interest	30
Due From Other Governments	7,174
TOTAL ASSETS	8,290,439

LIABILITIES

Accounts Payable	3,858
Salaries & Benefits Payable	1,445
Due To Other Governments	8,234,067
Trusts Payable	40,101
Compensated Absences	10,968
TOTAL LIABILITIES	8,290,439
NET ASSETS	\$ 0

See Notes To Financial Statements

MITCHELL COUNTY

Osage, Iowa

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Mitchell County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are presented in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. REPORTING ENTITY

For financial reporting purposes, Mitchell County has included all funds, organizations, agencies, boards, commissions, and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the County.

These financial statements present Mitchell County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units – The following component units are entities which are legally separate from the County, but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

Eight drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although these districts are legally separate from the County, they are controlled, managed and supervised by the Mitchell County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of these drainage districts can be obtained from the Mitchell County Auditor's office.

Jointly Governed Organizations – The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The Mitchell County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Mitchell County Assessor's Conference Board, Mitchell County Emergency Management Commission, and Mitchell County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the county and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other non-exchange transactions.

The Statement of Net Assets presents the County's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid from other funds.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION (CONTINUED)

Special Revenue

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for the secondary road construction and maintenance.

Additionally, the County reports the followings funds:

Fiduciary Funds – Agency funds are used to account for assets held by the county as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units, and/or other funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However principal and interest on long term debt, claims, judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the county funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply the cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

The County maintains its financial records on a cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. ASSETS, LIABILITIES AND FUND EQUITY

The following accounting policies are followed in preparing the combined balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2003.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable, but has not been collected.

Drainage Assessment Receivable – Drainage assessments receivable represent amounts assessed to individuals for work done on drainage districts which benefit their property. These assessments are payable by individuals in not less than 10 nor more than 20 annual installments. Each annual installment with interest on the unpaid balance is September 30 and is subject to the same interest and penalties as other taxes. Delinquent drainage assessments receivable represent assessments which are due and payable but have not been collected. Succeeding year drainage assessments receivable represents remaining assessments which are payable but not yet due.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Infrastructure	\$ 50,000
Land, buildings and improvements	25,000
Equipment and vehicles	5,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	20-50
Infrastructure	30-50
Equipment	2-20

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as delinquent property tax receivables and other receivables not collected within sixty days after year-end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absence liability attributable to the governmental activities will be paid primarily by the General, Mental Health and Secondary Roads Funds.

Long-term Liabilities – In the government-wide financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded amounts budgeted in the Debt Service and Capital Project functions.

Note 2: Cash and Pooled Investments

The County's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Note 3: Due from and Due to Other Funds

The detail of inter-fund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Agency:	
	Auto License and Use Tax	\$5,908

These balances result from the time lag between the dates that inter-fund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Notes to Financial Statements (Continued)

Note 4: Inter-fund Transfers

The detail of inter-fund transfers for the year ended June 30, 2004 is as follows:

Transfer To	Transfer From	Amount
Special Revenue:		
Secondary Roads	General	\$62,368
Secondary Roads	Special Revenue:	
	Rural Services	866,632
Agency	Agency	
County Assessor	Special Appraisal	50,271
Total		<u>\$979,271</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Note 5: Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$747,550	\$ 0	\$ 0	\$747,550
Construction in progress	0	0	0	0
Total capital assets not being depreciated	<u>747,550</u>	<u>0</u>	<u>0</u>	<u>747,550</u>
Capital assets being depreciated:				
Buildings	4,362,176	0	0	4,362,176
Improvements other than buildings	148,225	52,846	0	201,071
Machinery and equipment	3,339,558	55,254	13,857	3,380,955
Infrastructure	0	619,638	0	619,638
Total capital assets being depreciated	<u>7,849,959</u>	<u>727,738</u>	<u>13,857</u>	<u>8,563,840</u>
Less accumulated depreciation for:				
Buildings	1,678,532	69,764	0	1,748,296
Improvements other than buildings	35,574	8,042	0	43,616
Machinery and equipment	1,973,939	208,772	12,470	2,170,241
Infrastructure	0	29,208	0	29,208
Total accumulated depreciation	<u>3,688,045</u>	<u>315,786</u>	<u>12,470</u>	<u>3,991,361</u>
Total capital assets being depreciated, net	<u>4,161,914</u>	<u>411,952</u>	<u>1,387</u>	<u>4,572,479</u>
Governmental activities capital assets, net	<u>\$4,909,464</u>	<u>\$411,952</u>	<u>\$1,387</u>	<u>\$5,320,029</u>

Notes to Financial Statements (Continued)

Note 5: Capital Assets (Continued)

Depreciation was charged to functions of the primary government as follows:

Governmental activities:	
Public Safety and Legal Services	\$64,399
Physical Health and Social Services	2,323
Mental Health	13,871
County Environment and Education	13,836
Roads and Transportation	200,304
Governmental services to residents	4,953
Administration	16,100
Total depreciation expense – governmental activities	<u>\$315,786</u>

Note 6: Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
General	Services	\$3,273
Special Revenue		
Mental Health	Services	<u>26,521</u>
Total for governmental funds		<u>\$29,794</u>
Agency:		
Agricultural Extension	Collections	\$118,661
Assessor		170,183
Schools		4,784,275
Area Schools		245,982
Corporations		1,899,371
Auto License & Use Tax		188,740
All Others		826,855
Total for agency funds		<u>\$8,234,067</u>

Notes to Financial Statements (Continued)

Note 7: Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004, is as follows:

	Capital Lease Purchase Agreements	LOSST Bonds	Loan Agreements	Drainage Improvement Certificates	Compensated Absences	Total
Beginning Balance	\$41,128	\$1,790,000	\$888,079	\$56,390	\$124,271	\$2,899,868
Increases	0	0	0	0	13,649	13,649
Decreases	41,128	110,000	147,250	13,752	0	312,130
Ending Balance	\$ 0	\$1,680,000	\$740,829	\$42,638	\$137,920	\$2,601,387
Due Within One Year	\$ 0	\$120,000	\$128,799	\$ 0	\$137,920	\$386,719
Due in More Than One Year	\$ 0	\$1,560,000	\$612,030	\$ 0	\$ 0	\$2,172,030

Capital Lease Purchase Agreement

On June 9, 1998, the Secondary Roads Department entered into an agreement to purchase three new snow plow/dump trucks for \$270,564. The agreement required annual payment of \$43,440 which includes 5.48% per annum interest on the unpaid balance with the final payment due July 14, 2003. This lease was paid in full during the fiscal year ended June 30, 2004. Payments under this capital lease purchase agreement totaled \$43,440 during the fiscal year ended June 30, 2004.

Bond Payable

In April of 2000, the County issued \$2,100,000 of Local Option Sales and Service Tax Revenue bonds for the construction of, and purchase of equipment for, a County Law Enforcement Center. The bonds will be repaid from Local Option Sales and Service Tax revenues. Interest is due semi-annually with rates of 5.00% to 5.40%, payable on November 1 and May 1 of each year. Principal payments are due annually on May 1. The bonds mature on May 1, 2015. Details on the bond agreement are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$120,000	\$87,965	\$207,965
2006	125,000	81,965	206,965
2007	130,000	75,590	205,590
2008	135,000	68,960	203,960
2009	140,000	61,940	201,940
2010	150,000	54,660	204,660
2011	160,000	46,860	206,860
2012	165,000	38,540	203,540
2013	175,000	29,795	204,795
2014	185,000	20,520	205,520
2015	195,000	10,530	205,530
	<u>\$1,680,000</u>	<u>\$577,325</u>	<u>\$2,257,325</u>

During the year ended June 30, 2004, the County retired \$110,000 of bonds.

Notes to Financial Statements (Continued)

Note 7: Changes in Long-Term Liabilities (Continued)

Loan Agreements

On November 1, 1998, the County entered into a loan agreement for \$78,000 with First Citizens National Bank to finance the construction of new offices, shop and nature center for the Conservation Department. The loan is to be repaid at a rate of \$9,981 annually with the final payment due on November 1, 2008. The payment includes interest at a rate of 4.75% on the unpaid balance. Irregular payments were made during the fiscal year ended June 30, 2004. Details on the loan agreement are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$9,775	\$206	\$9,981
2006	1,200	57	1,257
	<u>\$10,975</u>	<u>\$263</u>	<u>\$11,238</u>

On January 29, 1999, the County entered into a loan agreement for \$91,000 with First Citizens National Bank to finance repairs and improvements to the Mitchell Mill Dam and Building. The loan is to be repaid at a rate of \$12,279 annually with final payment due January 29, 2009. The payment includes interest at a rate of 5.85% on the unpaid balance. Irregular payments were made during the year ended June 30, 2004. Details on the loan agreement are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	<u>\$9,779</u>	<u>\$364</u>	<u>\$10,143</u>

On June 6, 2002, the County entered into a loan agreement for \$24,000 with First Citizens National Bank for the purchase of conservation land. The loan was to be repaid at a rate of \$13,198 on August 1, 2002 and \$11,525 on August 1, 2003. The loan includes interest at a rate of 4.95% per year on the unpaid balance. This loan was paid in full during the fiscal year ended June 30, 2004.

On October 31, 2002, the County issued \$825,370 of General Obligation Capital Loan Notes, Series 2002, to finance the purchase of six motorgraders. Principal and interest payments are due annually commencing on October 31, 2003. The notes include interest at a rate of 3.75% per year on the unpaid balance. Details on the note agreement are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$109,244	\$27,003	\$136,247
2006	113,341	22,906	136,247
2007	117,591	18,656	136,247
2008	122,001	14,246	136,247
2009	126,576	9,671	136,247
2010	131,322	4,925	136,247
	<u>\$720,075</u>	<u>\$97,407</u>	<u>\$817,482</u>

Notes to Financial Statements (Continued)

Note 7: Changes in Long-Term Liabilities (Continued)

Drainage Improvement Certificates Payable

Drainage improvement certificates payable represent amounts due to purchasers of drainage improvement certificates. Drainage improvement certificates are waivers that provide for a landowner to pay an improvement assessment in installment payments over a designated number of year with interest at a designated interest rate. The improvement certificates representing those assessments or installments due from the landowner are sold for cash as interest bearing certificates. Funds received from the sale of certificates are used to pay outstanding registered warrants issued to contractors who perform work on drainage district improvements and registered warrants issued for other related costs. Drainage improvement certificates are redeemed and interest paid to the bearer of the certificate upon receipt of the installment payment plus interest, from the landowner.

Drainage improvement certificates are paid from the Special Fund solely from drainage assessments against benefited properties.

Note 8: Township Fire Equipment

In June 1999, the County entered into a loan agreement for \$53,000 for the purchase of township fire equipment. The loan is payable from the continuing annual levy of taxes against all the taxable property within the certain townships. The loan is to be repaid at an amount of \$7,043 annually, with a final payment due June 15, 2009. The payment includes interest at a rate of 5.75% on the unpaid balance. Details of the loan agreement are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$6,114	\$928	\$7,042
2006	6,474	569	7,043
2007	5,015	191	5,206
	<u>\$17,603</u>	<u>\$1,688</u>	<u>\$19,291</u>

In January 1999, the County entered into a lease agreement for a township fire truck totaling \$129,946. The lease purchase is payable from a continuing annual levy of taxes against all taxable property within certain townships. The agreement requires annual payments of \$17,350, which includes 5.63% per annum interest on the unpaid balance with final payment due April 15, 2009. Minimum future obligations on the lease obligations in effect at June 30, 2004 are as follows:

Year Ending June 30,	
2005	\$17,350
2006	17,350
2007	17,350
2008	17,350
2009	17,350
	<u>86,750</u>
Less: Amount Representing Interest	<u>12,355</u>
	<u>\$74,395</u>

Notes to Financial Statements (Continued)

Note 9: Closure and Postclosure Care Costs

Mitchell County is a member of the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The agency is an inter-governmental agency, established in accordance with the provisions of Chapter 28E of the State Code of Iowa (Inter-governmental Cooperation Agreement). The purpose of the Agency is to provide for the economic disposal or collection and disposal of all solid waste produced or generated with each member city, town, and the unincorporated portion of Floyd, Mitchell and Chickasaw Counties, comprising the municipalities. In performing its duties, the Agency may contract with and expend funds from Federal, state, and local agencies and private individuals and corporations.

State and Federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near an after the date that the landfill stops accepting waste, state laws require the Agency to submit a closure and postclosure plan detailing the schedule for and the methods by which the operator will meet the conditions for proper closure and postclosure. The Agency is in compliance with this requirement.

Note 10: Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by state statute. The County's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$163,320, \$157,681 and \$165,306, respectively, equal to the required contributions for each year.

Note 11: Risk Management

Mitchell County is a member in the Heartland Insurance Risk Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Heartland Insurance Risk Pool (Pool) is a local government risk-sharing pool whose 10 members include various governmental entities throughout the State of Iowa. The Pool was formed July 1, 1987 for the purpose of providing a voluntary self-insured program to counties in the State of Iowa. The program is designed to provide members a greatly improved loss control program whose purpose is to reduce claims and accidents; aid through sound and equitable claim management practices to reduce costs; and provide the required and/or desired reinsurance at a discount, based on volume and lower risk exposure. The Pool provides coverage and protection in the following categories: workers' compensation, automobile liability, automobile physical damage and crime lines of business on an occurrence basis. General liability coverage is written on a claims-made basis. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all of any portion of any deficiency in capital.

Notes to Financial Statements (Continued)

Note 11: Risk Management (Continued)

The Pool also provides property, inland marine, boiler, public officials errors and omissions, law enforcement liability and business income and extra expense coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of a deficiency in capital. Any year end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contribution to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2004 were \$150,423.

The Pool uses reinsurance and excess sharing agreements to reduce its exposure to large losses. The Pool retains automobile and general liability risks in excess of \$250,000 up to \$1,000,000 per claim. The Pool retains workers' compensation risks in excess of \$350,000 up to \$1,000,000 per claim. Automobile and general liability claims exceeding \$1,000,000 are reinsured in an amount not to exceed \$3,000,000 per claim. Workers' compensation claims exceeding \$1,000,000 are reinsured in an amount not to exceed \$2,000,000. Crime lines of business risks are retained by the Pool up to \$25,000 per occurrence. Automobile physical damage risks are retained by the Pool up to the replacement cost of the vehicle. All property, inland marine, boiler, public officials errors and omissions, business income and expense, and law enforcement liability risks are also reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk sharing protection provided by the member's risk sharing certificate, or in the event the a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The county does not report a liability for losses in excess of reinsurance or excess risk sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such losses can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the County's financial statement. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage in any of the past three fiscal years.

Members agree to continue membership in the Pool for a period of not less than three full years. Subsequent to this initial term, the member may withdraw at the end of the third fiscal year of any three year term, only after at least 60 days prior written notice. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution, which the withdrawing member would have made for the one year period following withdrawal and the member's proportionate share of any capital deficiency.

Note 12: Related Party Transactions

Business transactions between the County and County officials or employees were noted. Some transactions appear to be conflicts of interest as they were over \$1,500 for the year.

Note 13: Budget Overexpenditures

Per the Code of Iowa, disbursements may not legally exceed amount budgeted by function or amounts appropriated by department. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the Debt Service and Capital Projects Functions.

Notes to Financial Statements (Continued)

Note 14: Accounting Change

Governmental Accounting Standards Board Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statements Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences* were implemented during the fiscal year ended June 30, 2004. The statements create new basic financial statements for reporting the County’s financial activities. The financial statements create new basic financial statements for reporting the County’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major special revenue funds are presented in total in one column.

The government-wide financial statements report the County’s governmental activities. Beginning net assets for governmental activities has been restated to include capital assets and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

Net assets, June 30, 2003, as previously reported	\$3,100,140
GASB Interpretation 6 Adjustments	<u>40,039</u>
Net assets, July 1, 2003, as restated for governmental funds	3,140,179
 GASB 34 Adjustments:	
Capital assets, net of accumulated depreciation of \$3,688,045	4,909,464
Long-Term Liabilities	(2,940,034)
Deferral of Long-Term Assets	<u>71,792</u>
 Net Assets, July 1, 2003 as restated:	<u><u>\$5,181,401</u></u>

MITCHELL COUNTY
Osage, Iowa

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2004**

	Actual	Less Funds Not Required to Be Budgeted	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
RECEIPTS						
Property & Other County Tax	\$3,378,889	\$ 0	\$3,378,889	\$3,353,367	\$3,353,367	\$25,522
Interest & Penalty on Property Tax	20,380	0	20,380	20,900	20,900	(520)
Intergovernmental	3,392,797	0	3,392,797	3,498,585	3,542,068	(149,271)
Licenses & Permits	4,400	0	4,400	4,000	4,000	400
Charges for Services	708,255	0	708,255	609,623	641,242	67,013
Use of Money & Property	81,736	0	81,736	137,013	140,245	(58,509)
Miscellaneous	71,039	47,731	23,308	3,125	5,731	17,577
Total Receipts	7,657,496	47,731	7,609,765	7,626,613	7,707,553	(97,788)
DISBURSEMENTS						
Public Safety & Legal Services	1,145,537	0	1,145,537	1,096,192	1,165,089	19,552
Physical Health & Social Services	726,877	0	726,877	715,151	802,315	75,438
Mental Health	1,518,460	0	1,518,460	1,570,667	1,570,667	52,207
County Environment & Education	605,237	0	605,237	667,884	668,334	63,097
Roads & Transportation	2,312,748	0	2,312,748	2,585,000	2,585,000	272,252
Governmental Services to Residents	231,237	0	231,237	220,176	242,176	10,939
Administrative Services	702,125	0	702,125	653,166	718,666	16,541
Nonprogram	43,329	43,231	98	500	810	712
Debt Service	203,765	0	203,765	203,615	203,615	(150)
Capital Projects	678,531	0	678,531	475,000	800,000	121,469
Total Disbursements	8,167,846	43,231	8,124,615	8,187,351	8,756,672	632,057
Excess (Deficiency) of Receipts Under Disbursements	(510,350)	4,500	(514,850)	(560,738)	(1,049,119)	534,269
Other Financing Sources, Net	512	0	512	1,000	5,095	(4,583)
Excess (Deficiency) of Receipts & Other Financing Sources Over (Under) Disbursements & Other Financing Uses	(509,838)	4,500	(514,338)	(559,738)	(1,044,024)	529,686
Balance Beginning of Year	3,087,622	12,056	3,075,566	2,085,991	2,085,991	989,575
Balance End of Year	\$2,577,784	\$16,556	\$2,561,228	\$1,526,253	\$1,041,967	\$1,519,261

See Accompanying Independent Auditors' Report

MITCHELL COUNTY
Osage, Iowa

BUDGET COMPARISON SCHEDULE –
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$7,657,496	\$(8,319)	\$7,649,177
Expenditures	8,167,846	(88,194)	8,079,652
Net	(510,350)	79,875	(430,475)
Other Financing Sources	512	0	512
Beginning Fund Balances	3,087,622	52,557	3,140,179
Decrease in Reserve For:			
Inventories	0	(13,056)	(13,056)
Ending Fund Balances	\$2,577,784	\$119,376	\$2,697,160

See Accompanying Independent Auditors' Report

**Mitchell County
Osage, Iowa**

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriation lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund and Special Revenue Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$569,321. The budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the Debt Service and Capital Projects functions.

MITCHELL COUNTY
Osage, Iowa

COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
June 30, 2004

	County Disposal Closure	Local Option Sales Tax Bond Sinking Fund	Senior Health Care	Home Health Capital Improvement
ASSETS				
Cash & Pooled Investments	\$3,893	\$228,978	\$8,328	\$32,949
Receivables				
Accounts	0	0	0	0
Accrued Interest	4	420	0	35
Drainage	0	0	0	0
Due From Other Governments	0	16,694	0	0
TOTAL ASSETS	\$3,897	\$246,092	\$8,328	\$32,984
LIABILITIES AND FUND EQUITY				
Liabilities				
Deferred Revenue	\$ 0	\$ 0	\$ 0	\$ 0
Fund Equity				
Fund Balance				
Unreserved	3,897	246,092	8,328	32,984
TOTAL LIABILITIES AND FUND EQUITY	\$3,897	\$246,092	\$8,328	\$32,984

See Accompanying Independent Auditors' Report

Schedule 1

Drug Enforcement	Resource Enhancement & Protection	County Recorder's Electronic Transaction Fee	County Recorder's Records Management	Drainage Districts	Conservation Land Acquisition	Total
\$17,281	\$ 745	\$9,749	\$ 933	\$16,556	\$53,717	\$373,129
0	134	0	733	0	2,398	3,265
19	1	10	0	0	45	534
0	0	0	0	42,638	0	42,638
0	0	0	0	0	0	16,694
\$17,300	\$ 880	\$9,759	\$1,666	\$59,194	\$56,160	\$436,260
\$ 0	\$ 0	\$ 0	\$ 0	\$42,638	\$ 0	\$42,638
17,300	880	9,759	1,666	16,556	56,160	393,622
\$17,300	\$ 880	\$9,759	\$1,666	\$59,194	\$56,160	\$436,260

MITCHELL COUNTY
Osage, Iowa

COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR SPECIAL REVENUE FUNDS
Year Ended June 30, 2004

	County Disposal Closure	Local Option Sales Tax Bond Sinking Fund	Senior Health Care	Home Health Capital Improvement
REVENUES				
Property & Other County Tax	\$ 0	\$ 258,820	\$ 0	\$ 0
Intergovernmental	0	0	530	0
Charges for Services	0	0	0	0
Use of Money & Property	46	6,310	0	358
Miscellaneous	0	0	0	8,160
Total Revenues	46	265,130	530	8,518
EXPENDITURES				
Operating:				
Public Safety & Legal Services	0	0	0	0
Physical Health & Social Services	0	0	535	0
County Environment & Education	0	0	0	0
Governmental Services to Residents	0	0	0	0
Nonprogram	0	0	0	0
Debt Service	0	203,765	0	0
Total Expenditures	0	203,765	535	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	46	61,365	(5)	8,518
Fund Balances – Beginning of Year	3,851	184,727	8,333	24,466
Fund Balances – End of Year	\$3,897	\$246,092	\$8,328	\$32,984

See Accompanying Independent Auditors' Report

Schedule 2

Drug Enforcement	Resource Enhancement & Protection	County Recorder's Electronic Transaction Fee	County Recorder's Records Management	Drainage Districts	Conservation Land Acquisition	Total
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$258,820
335	9,288	0	0	0	0	10,153
199	0	22,689	2,930	0	6,835	32,653
204	10	70	63	0	19,555	26,616
0	0	0	0	20,883	923	29,966
738	9,298	22,759	2,993	20,883	27,313	358,208
115	0	0	0	0	0	115
0	0	0	0	0	0	535
0	9,154	0	0	0	26,621	35,775
0	0	13,000	8,467	0	0	21,467
0	0	0	0	43,231	0	43,231
0	0	0	0	0	0	203,765
115	9,154	13,000	8,467	43,231	26,621	304,888
623	144	9,759	(5,474)	(22,348)	692	53,320
16,677	736	0	7,140	38,904	55,468	340,302
\$17,300	\$880	\$9,759	\$1,666	\$16,556	\$56,160	\$393,622

MITCHELL COUNTY
Osage, Iowa

COMBINING SCHEDULE OF FIDUCIARY
ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2004

ASSETS	County Offices	Agricultural Extension Education	County Assessor	Schools
Cash & Pooled Investments				
County Treasurer	\$ 0	\$1,777	\$66,361	\$71,794
Other County Officials	19,626	0	0	0
Receivables				
Property Tax				
Delinquent	0	6	6	250
Succeeding Year	0	116,813	114,277	4,709,633
Accounts	345	0	0	0
Accrued Interest	0	0	0	0
Due From Other Governments	0	65	63	2,598
TOTAL ASSETS	\$19,971	\$118,661	\$180,707	\$4,784,275
 LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts Payable	\$ 0	\$ 0	\$448	\$ 0
Salaries & Benefit Payable	0	0	995	0
Due to Other Governments	313	118,661	170,183	4,784,275
Trusts Payable	19,658	0	0	0
Compensated Absences	0	0	9,081	0
TOTAL LIABILITIES	\$19,971	\$118,661	\$180,707	\$4,784,275

See Accompanying Independent Auditors' Report

Schedule 3

Area Schools	Corporation	Townships	City Special Assessments	Auto Licenses & Use Tax	Other	Total
\$3,771	\$18,483	\$1,520	\$2,792	\$188,740	\$165,937	\$521,175
0	0	0	0	0	0	19,626
13	199	0	0	0	29	503
242,064	1,878,951	98,134	0	0	561,272	7,721,144
0	0	0	0	0	20,442	20,787
0	0	0	0	0	30	30
134	1,738	32	0	0	2,544	7,174
\$245,982	\$1,899,371	\$99,686	\$2,792	\$188,740	\$750,254	\$8,290,439
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$3,410	\$3,858
0	0	0	0	0	450	1,445
245,982	1,899,371	99,686	2,792	188,740	724,064	8,234,067
0	0	0	0	0	20,443	40,101
0	0	0	0	0	1,887	10,968
\$245,982	\$1,899,371	\$99,686	\$2,792	\$188,740	\$750,254	\$8,290,439

MITCHELL COUNTY
Osage, Iowa

**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY
ASSETS AND LIABILITIES – AGENCY FUNDS**

Year Ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS AND LIABILITIES				
Balances – Beginning of Year	\$17,066	\$125,630	\$182,785	\$5,102,437
Additions				
Property & Other County Tax	0	118,478	115,847	4,777,932
E911 Surcharge	0	0	0	0
State Tax Credits	0	8,243	7,783	334,353
Driver License Fees	0	0	0	0
Office Fees & Collections	511,236	0	0	0
Electronic Transaction Fees	0	0	0	0
Auto Licenses, Use Tax & Postage	0	0	0	0
Assessments	0	0	0	0
Trusts	56,138	0	0	0
Miscellaneous	0	0	505	0
Total Additions	567,374	126,721	124,135	5,112,285
Deductions				
Agency Remittances				
To County Funds	333,825	0	0	0
To Other Governments	94,143	133,690	176,484	5,430,447
Trusts Paid Out	136,501	0	0	0
Total Deductions	564,469	133,690	176,484	5,430,447
Other Financing Sources (Uses)				
Operating Transfers In (Out)	0	0	50,271	0
Balances – End of Year	\$19,971	\$118,661	\$180,707	\$4,784,275

See Accompanying Independent Auditors' Report

Schedule 4

Area Schools	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$267,208	\$1,861,695	\$100,187	\$11,416	\$194,246	\$627,432	\$8,490,102
245,582	1,892,049	99,923	0	0	567,745	7,817,556
0	0	0	0	0	67,305	67,305
17,521	157,516	5,902	0	0	30,597	561,915
0	0	0	0	74,130	0	74,130
0	0	0	0	0	0	511,236
0	0	0	0	0	14,645	14,645
0	0	0	0	2,232,660	0	2,232,660
0	0	0	99,333	0	0	99,333
0	0	0	0	0	129,701	185,839
0	0	0	0	0	72,254	72,759
263,103	2,049,565	105,825	99,333	2,306,790	882,247	11,637,378
0	0	0	0	97,172	0	430,997
284,329	2,011,889	106,326	107,957	2,215,124	579,834	11,140,223
0	0	0	0	0	129,320	265,821
284,329	2,011,889	106,326	107,957	2,312,296	709,154	11,837,041
0	0	0	0	0	(50,271)	0
\$245,982	\$1,899,371	\$99,686	\$2,792	\$188,740	\$750,254	\$8,290,439

MITCHELL COUNTY
Osage, Iowa

**SCHEDULE OF REVENUES BY SOURCE AND
EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES**

For the Last Two Years

	Modified Accrual Basis	
	2004	2003
Revenues:		
Property & Other County Tax	\$3,375,423	\$3,481,525
Interest & Penalty On Property Tax	20,380	2,043
Intergovernmental	3,431,000	3,422,863
Licenses & Permits	4,445	4,698
Charges For Service	695,362	832,773
Use of Money & Property	82,143	103,358
Miscellaneous	40,424	101,679
Total	<u>\$7,649,177</u>	<u>\$7,968,939</u>
Expenditures:		
Current:		
Public Safety & Legal Services	\$1,124,200	\$1,081,302
Physical Health & Social Services	717,634	611,694
Mental Health	1,525,248	1,449,681
County Environment & Education Services	608,744	686,286
Roads & Transportation	2,269,216	2,982,794
Governmental Services To Residents	240,475	211,603
Administration Services	702,140	89,244
Non-Program	43,329	106,104
Debt Services	203,765	204,015
Capital Projects	644,901	237,359
Total	<u>\$8,079,652</u>	<u>\$7,660,082</u>

See Accompanying Independent Auditors' Report

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting

To the Officials of Mitchell County
Osage, Iowa

We have audited the financial statements of Mitchell County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated March 15, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mitchell County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved, except for items (2), (7) and (11).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mitchell County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Mitchell County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness. Prior year reportable conditions have been resolved except for items (A), (B) and (C).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Mitchell County and other parties to whom Mitchell County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Mitchell County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

March 15, 2005

MITCHELL COUNTY
Osage, Iowa

SCHEDULE OF FINDINGS
Year Ended June 30, 2004

Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

- (A) **Segregation of Duties** – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the County Officials should review the operating procedures of each office to obtain the maximum internal control possible under the circumstances.

Response – We have reviewed procedures and plan to make the necessary changes to improve internal control. Specifically, the custody, record-keeping and reconciling function currently performed by each office will be separate and spread among the County Official, Deputy and Clerk.

Conclusion – Response accepted.

- (B) **Bank Accounts Maintained** – Separate bank accounts were maintained for the collections and expenditures of the Special Law Enforcement Proceeds from Forfeited Property. The collections and expenditures were not reflected in the County's accounting system and have not been included in the County's annual budget or financial report.

Recommendation – All collections for the Special Law Enforcement Proceeds from Forfeited Property should be remitted to the County Treasurer and all expenditures should be reflected in the County's accounting system, annual budget, and financial report. Additionally, all expenditures should be presented to the Board of Supervisors for approval and charged against the budget.

Response – I am continuing to give serious consideration to this matter.

Conclusion – Recommendation stands.

- (C) **Information Systems** – During our review of internal control, the existing control activities in the County's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the County's computer based systems were noted:

The County does not have written policies:

- Requiring password changes because software does not require the user to change log-ins/passwords periodically.

Schedule of Findings (Continued)

(C) Information Systems (Continued)

Recommendation – The County should develop written policies addressing the above items in order to improve the County's control over computer based systems. Back-up tapes should be stored off site daily in a fireproof vault or safe.

Response – The County will comply in the future with these recommendations. County officials have discussed and agree that these policies are needed.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

- 1 **Official Depositories** – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year.
- 2 **Certified Budget** – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the Debt Service and Capital Projects functions. Also, the Emergency Management Budget Amendment lists an incorrect certified budgeted expenditure amount and the E-911 25% balance requirement was not calculated correctly.

On February 24, 2004, the Board of Supervisors awarded \$5,000 in additional appropriations to the Medical Examiner department by decreasing the Emergency Medical Services department appropriation by \$5,000. A public hearing did not precede this appropriation. Also, only \$4,522 had been originally appropriated to the Emergency Medical Service department, creating a negative appropriation.

Recommendation – The budget should have been in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

The Emergency Management Budget Amendment should have been proofed to ensure accuracy before publication and adoption.

The E-911 25% balance requirement calculation should have been recalculated to ensure accuracy before submission.

Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriations of another office or department as long as the function budget is not increased. This Code section also requires a public hearing to precede all decreases in appropriations for a County office or department of more than ten percent or \$5,000. A public hearing should have been held prior to the February 24, 2004 decrease in appropriations. Also, the County should take additional measures to ensure that funds to be re-appropriated are available for appropriations.

Response – We will amend the budget when required. Any Emergency Management Budget Amendments will be proofed before publication and adoption. The E-911 25% balance requirement will be recalculated before submission. We hold public hearings before decreases in appropriations of more than ten percent or \$5,000 and will take greater care to ensure no negative appropriations are created.

Conclusion – Response accepted.

- 3 **Questionable Expenditures** – We noted no expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

Schedule of Findings (Continued)

- 4 **Travel Expense** – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- 5 **Business Transaction** - The following business transactions between the County and County official or employee were noted :

Name, Title and Business Connection	Transaction	Amount
Brian Rogers, Dispatch Owner of Roger’s Electronics	Electronics Repairs & Installation	\$ 624
Thelma Scharper, Homemaker, Husband is owner of Scharpers Services	Services	2,279
Deb Freeman, Homemaker Husband is owner of Freeman’s Welding	Sign	3,500
Cheryl Jahnel, Supervisor Husband is owner of Mark’s Auto Body & Sales	Services	1,465

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Scharper Services and Freeman Welding appear to represent conflicts of interest. The transactions with Brian Rogers and Mark’s Auto Body & Sales do not represent conflicts of interest since the total transactions were not in excess of \$1,500 during the fiscal year.

Recommendation – The County should refrain from conducting business with related parties. Transactions in excess of \$1,500 per year should be competitively bid.

Response – We will refrain from conducting business with related parties when possible.

Conclusion – Response accepted.

- 6 **Bond Coverage** – Surety bond coverage of County officials and employees is in accordance with statutory provisions.
- 7 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not. However, the Board went into closed sessions without following the statutorily prescribed procedure.

Recommendation – The Board of Supervisors should ensure all closed meetings comply with Chapter 21 of the Code of Iowa.

Response – We will comply.

Conclusion – Response accepted.

- 8 **Resource Enhancement and Protection Certification** - The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

- 9 **Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County's investment policy were noted.

Schedule of Findings (Continued)

- 10 **County Extension Office** – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B. Disbursement for the County Extension Office during the year ended June 30, 2004, did not exceed the amount budgeted.

- 11 **Economic Development** – During the year ended June 30, 2004, the County expended \$25,862 for the economic development, which may not be appropriate expenditure of public funds since the public benefits to be derived have not been clearly documented.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advised that the governing body should evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation – The Board should evaluate and document the public purpose served by the expenditure before authorizing further payments and should require documentation of how the funds were used to accomplish economic development activities.

Response – We will obtain the necessary documentation for past expenditures and will consider these requirements in the future.

Conclusion – Response accepted.

- 12 **Home Health** – Homemakers submitting claims for mileage reimbursements are not including detail for miles traveled, only a total of miles to be reimbursed. Several claims submitted to the Auditor's Office for payment did not include a detailed receipt. Wages in addition to salary and regular hourly wages are not approved by the Board of Health or the Board of Supervisors, and are not processed through the payroll system. Also, Home Health Claims submitted to the Auditor's Office for payment are not approved by the Board of Health or the Board of Supervisors.

Recommendation – All claims for mileage reimbursement should include a log of miles traveled. All claims submitted to the Auditor's Office for payment should include a detailed receipt. All wages in addition to salary or regular hourly wages should be approved by the Board of Health and the Board of Supervisors and these wages should be processed through the payroll system. All Home Health claims should be approved by the Board of Health before submission to the Board of Supervisors for payment.

Response – County officials have discussed and agree that these policies are needed.

Conclusion – Response accepted.

- 13 **Sheriff Fuel Claims** – The County pays AgVantage FS, Inc. monthly for fuel purchases made by the Sheriff's Office. The claims submitted to the Auditor's Office for payment do not include detail of fuel purchases including gallons purchased, mileage or other identifying information for each purchase.

Recommendation – All claims should include detail for each purchase including information to identify who made each purchase and which patrol car was involved with each purchase.

Response – County official have discussed and agree that these policies are needed.

Conclusion – Response accepted.

Schedule of Findings (Continued)

- 14 **Auditor Quarterly Reports** – The Auditor is not submitting quarterly reports to the Board of Supervisors.

Recommendation – Chapter 331.902 of the Code of Iowa requires the Auditor to make quarterly reports of fees collected to the Board of Supervisors.

Response – We will comply immediately.

Conclusion – Response accepted.

News Release

March 30, 2005

Gardiner Thomsen today released an audit report on Mitchell County, Iowa.

The County has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities, which provide information about the activities of Mitchell County as a whole and present a longer-term view of the County's finances. Also included is Management's Discussion and Analysis of the County's financial statements.

Gardiner Thomsen reported that the County had local tax revenue of \$11,573,440 for the year ended June 30, 2004, which included \$750,204 in tax credits from the State. The County then forwarded \$8,569,425 of the local tax revenue to the townships, school districts, cities, and other taxing bodies in the County.

The County retained \$3,004,015 of the local tax revenue to finance county operations, a 19% decrease from the prior year. Other revenues included charges for service of \$786,466, operating grants, contributions and restricted interest of \$2,793,391, unrestricted investment earnings of \$44,398 and other general revenues of \$440,698.

Expenditures for the County operations totaled \$8,079,652, a 1% decrease from the prior year. Expenditures included \$2,269,216 for Roads and Transportation, \$1,525,248 for Mental Health, and \$1,124,200 for Public and Legal Services.

A copy of the audit report is available for review in the office of the Auditor of State and County Auditor's office.

#####